

IPERS' Investment Service Contractors

Selection Process, Current Roster & Costs

Selection Process

- A recommendation that a bid process be undertaken to hire a replacement or additional investment consultant or manager may be made by a member of the IPERS Investment Board, the IPERS staff or one of IPERS' investment consultants.
- **Per the System's Investment Policy, no bid process may be commenced without an affirmative majority vote of the IPERS Investment Board.** The Board votes based on information provided by staff and the consultant as to (a) the service mandate to be bid, (b) the proposed search timeline, (c) size of the expected field of bidders, and (d) proposed minimum bidder qualifications. The minimum bidder qualifications for investment consultant searches are developed by staff. Minimum qualifications for investment manager searches are developed by staff and the consultant based on information in the consultant's proprietary manager database.
- Once the Board has approved commencement of a bid process, the staff and consultant (latter for manager searches) draft and issue the Request for Proposals (RFP). All of IPERS' investment consultants and managers are hired by open, competitive bid process, with an RFP posted on the Websites of IPERS, the State of Iowa and the appropriate IPERS consultant (latter applies to manager searches).
- Staff and an IPERS consultant (latter for manager searches) answer bidder questions, receive the bids and certify which bids have met the published minimum bidder qualifications.
- In contractor searches where more than five qualified bids are received, the consultant (for manager searches) or the IPERS staff (for consultant searches) review all bids and provide a written report recommending five of the firms for further consideration. The report contains comprehensive quantitative and qualitative information and rankings of each bidding firm.
- An evaluation committee is established for each bid process, consisting of one to three Investment Board members, the appropriate IPERS investment consultant (for manager searches), IPERS' CEO (for consultant searches), the IPERS Investment Officers, and normally a State Treasurer's Office Investment Officer. The committee reviews and approves or rejects the consultant's (for manager searches) or staff's (for consultant searches) recommendation of the five best qualified firms, reads and scores the five best qualified bids, selects and interviews one to three finalist firms, and formulates a recommendation to the Investment Board of the firm to be hired by IPERS.
- **Per Iowa Code §97B.4(3)f, the final selection of investment service contractors is by affirmative majority vote of the Investment Board.** The Board votes based upon the report and recommendation of the search evaluation committee.
- The System's investment service contracts, including fee schedules, are negotiated by the appropriate consultant and staff for manager contracts, and by staff for consultant contracts.

Current Contractor Roster

- IPERS currently retains two investment consultants: Wilshire Associates of Santa Monica, CA is the System's general investment consultant, and The Townsend Group of Cleveland, OH is the real estate investment consultant.
- The System currently retains 20 investment management firms, some of which manage multiple investment mandates for IPERS. Among the more recognizable firm names are Mellon Capital Management, Barclays Global Investors and Wellington Management Company. A full list of IPERS' managers is included in each fiscal year's CAFR.

- An Iowa-based firm, Principal Global Investors of Des Moines, is included in the current roster. Principal manages a \$1.13 billion IPERS fixed income account.

Investment Management Costs

- **Per Iowa Code §97B.7(3)d, IPERS' investment management expenses may not exceed 0.40% (40 basis points) of the market value of the retirement fund.** IPERS is the only Iowa statewide public pension fund with a statutory limit on its investment management expenses.
- The System's "investment management expenses", the definition and calculation methodology of which is prescribed in IPERS' administrative rules, includes not only consultant and manager fees, but custodian bank and State Treasurer's Office charges, as well as all Investment Board and investment staff per diems, salaries and expenses.
- For Fiscal Year 2005, the System's investment management costs were **0.27%** (27 basis points) of the fund's quarterly average market value.
- The System's most recent evaluation of its total investment costs (for calendar year 2004) by Cost Effectiveness Measurement, Inc. indicated that IPERS is a "low cost" provider of investment management services.
- Over the past ten fiscal years (FY 96-FY 05), the System's investment management costs averaged **0.20%** (20 basis points) of the fund's market value.
- IPERS uses performance-based fees for 77% of its manager contracts. Only the System's index fund and private equity managers are not compensated by performance-based fees, since in the former case performance incentives in general, and in the latter case performance incentives over short time periods, are not appropriate for these particular investment strategies.